

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other	Local Government Name Battle Creek Transit System	County Calhoun
Audit Date June 30, 2005	Opinion Date October 21, 2005	Date Accountant Report Submitted to State: December 1, 2005

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

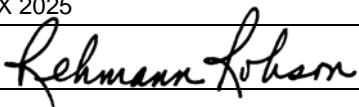
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

BATTLE CREEK TRANSIT SYSTEM

Battle Creek, Michigan

**Financial Statements
And
Supplementary Information**

**For the Year Ended
June 30, 2005**



REHMANN ROBSON

Certified Public Accountants

BATTLE CREEK TRANSIT SYSTEM

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

October 21, 2005

Honorable Mayor and Members of
the City Commission
City of Battle Creek, Michigan

We have audited the accompanying financial statements of the ***Battle Creek Transit System, an enterprise fund of the City of Battle Creek, Michigan***, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the City of Battle Creek's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Battle Creek Transit System and do not purport to, and do not present fairly the financial position of the City of Battle Creek, Michigan, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Battle Creek Transit System, an enterprise fund of the City of Battle Creek, Michigan as of June 30, 2005, and the changes in financial position thereof and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Battle Creek Transit System. The information on pages 9 through 13 has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The information on pages 14 through 17 has not been subjected to the procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

FINANCIAL STATEMENTS

BATTLE CREEK TRANSIT SYSTEM
Statement of Net Assets
June 30, 2005

Assets

Current assets:

Grants receivable	\$ 1,006,746
Inventory	<u>108,208</u>

Total current assets 1,114,954

Capital assets, net 2,630,832

Total assets 3,745,786

Liabilities, all current

Accrued payroll and compensated absences	87,491
Interfund payable to other funds of the City	<u>877,165</u>

Total current liabilities 964,656

Net assets

Investment in capital assets	2,630,832
Unrestricted	<u>150,298</u>

Total net assets \$ 2,781,130

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK TRANSIT SYSTEM
Statement of Revenue, Expenses, and
Changes in Net Assets
For the Year Ended June 30, 2005

Operating revenue	
Line-haul (farebox)	\$ 332,074
Charter service	803
Advertising	23,210
Other operating revenue	36,371
Total operating revenue	<u>392,458</u>
Operating expenses	
Operations	2,897,760
Maintenance	663,276
General administration	367,216
Total operating expenses	<u>3,928,252</u>
Operating loss	<u>(3,535,794)</u>
Non-operating revenue (expense)	
Federal grants	961,652
State grants	1,596,371
Total non-operating revenue	<u>2,558,023</u>
Net loss before transfers	(977,771)
Transfers in from other funds	793,128
Transfers out to other funds	<u>(4,500)</u>
Change in net assets	(189,143)
Total net assets, beginning of year	<u>2,970,273</u>
Total net assets, end of year	<u><u>\$ 2,781,130</u></u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK TRANSIT SYSTEM
Statement of Cash Flows
For the Year Ended June 30, 2005

Cash flows from operating activities

Receipts from customers and users	\$ 392,458
Payments to suppliers	(614,794)
Payments to employees	(2,526,288)
Payments for interfund services	(59,662)

Net cash used in operating activities	(2,808,286)
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Cash flows from non-capital financing activities

Transfers in	793,128
Transfers out	(4,500)
Federal and state grants	2,335,794

Net cash provided by non-capital financing activities	3,124,422
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Cash flows from capital and related financing activities

Purchase of capital assets	(316,137)
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Net decrease in cash and cash equivalents	(1)
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Pooled cash and investments, beginning of year	-
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Pooled cash and investments, end of year	\$ (1)
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**Reconciliation of operating loss
to net cash used in operating activities**

Operating loss	\$ (3,535,794)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	525,370
Changes in assets and liabilities:	
Inventory	(1,383)
Accrued payroll and compensated absences	(184)
Interfund payable	203,705

Net cash used in operating activities	\$ (2,808,286)
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK TRANSIT SYSTEM

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Battle Creek Transit System (the “System”) is an enterprise fund of the City of Battle Creek, Michigan. The System provides public transportation services to users in the City of Battle Creek and portions of the surrounding area. The accounting policies of the System conform with generally accepted accounting principles as applicable to proprietary funds. A summary of significant accounting policies follows.

Reporting Entity - These financial statements represent the financial condition, results of operations and cash flows of an enterprise fund of the City of Battle Creek, Michigan (the “City”) and are an integral part of that reporting entity. The System is not a component unit of the City or any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

Basis of Accounting - The System uses a fund (i.e., a separate accounting entity with a self-balancing set of accounts) to report its financial position, the results of its operations and its cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

The System is operated as an enterprise fund, which is used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The System applies all applicable FASB pronouncements issued through November 30, 1989 in accounting and reporting for its proprietary operations. The System has elected not to follow subsequent private-sector

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Pooled Cash and Investments – The System’s pooled cash and investments, if any, represents amounts deposited entirely in the City’s internal cash management pool.

Inventory – Inventory is valued at cost using the first-in/first-out method.

BATTLE CREEK TRANSIT SYSTEM

Notes To Financial Statements

Capital Assets – Capital assets, which include property and equipment, are reported at cost or, if donated, at their estimated fair value on the date donated. The System defines capital assets as assets with an initial, individual cost of \$10,000 or more and estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The System's capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings	50
Equipment	3-10
Furniture and fixtures	6-10
Vehicles	7-10

Compensated Absences - Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. Sick pay benefits are not provided pursuant to the City's short-term disability program.

2. POOLED CASH AND INVESTMENTS

The System, along with the various other funds of the City, participates in the City's pooled cash management accounts. At June 30, 2005, the System had a negative cash balance in the City's cash pool of \$877,165, which is reported in the accompanying statement of net assets as an *interfund payable*. Information regarding this internal cash management pool is presented in the City's comprehensive annual financial report.

BATTLE CREEK TRANSIT SYSTEM

Notes To Financial Statements

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 66,499	\$ -	\$ -	\$ 66,499
Capital assets, being depreciated:				
Land improvements	26,130	-	-	26,130
Buildings	2,399,385	-	-	2,399,385
Equipment	1,125,289	83,068	-	1,208,357
Furniture and fixtures	375,659	-	-	375,659
Vehicles	6,813,200	233,068	-	7,046,268
Total capital assets being depreciated	10,739,663	316,136	-	11,055,799
Less accumulated depreciation for:				
Land improvements	14,372	2,613	-	16,985
Buildings	661,322	79,594	-	740,916
Equipment	1,210,211	164,697	-	1,374,908
Furniture and fixtures	260,135	-	-	260,135
Vehicles	5,820,056	278,466	-	6,098,522
Total accumulated depreciation	7,966,096	525,370	-	8,491,466
Total capital assets being depreciated, net	2,773,567	(209,234)	-	2,564,333
System capital assets, net	\$ 2,840,066	\$ (209,234)	\$ -	\$ 2,630,832

4. RISK MANAGEMENT

The System participates in the City's self-insurance program for liability and worker's compensation insurance coverage. Property insurance coverage is provided by commercial carriers through the City's self-insurance fund.

BATTLE CREEK TRANSIT SYSTEM

Notes To Financial Statements

5. CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the System. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

* * * * *

SUPPLEMENTARY INFORMATION

BATTLE CREEK TRANSIT SYSTEM
Schedule of Operating and Non-Operating Revenue
For the Year Ended June 30, 2005

	7/1/04 through 9/30/04	10/1/04 through 6/30/05	Total
Operating revenue			
Line-haul (farebox)	\$ 91,555	\$ 240,519	\$ 332,074
Charter service	225	578	803
Advertising	7,460	15,750	23,210
Other operating revenue	305	36,066	36,371
	<u>305</u>	<u>36,066</u>	<u>36,371</u>
Total operating revenue	<u>\$ 99,544</u>	<u>\$ 292,914</u>	<u>\$ 392,458</u>
Non-operating revenue (expense)			
Federal grants:			
Operating grant - Section 9	\$ -	\$ 769,556	\$ 769,556
Planning grants	-	192,096	192,096
	<u>-</u>	<u>192,096</u>	<u>192,096</u>
	<u>-</u>	<u>961,652</u>	<u>961,652</u>
State of Michigan grants:			
Formula operating assistance	380,294	1,021,014	1,401,308
Planning grants	-	195,063	195,063
	<u>380,294</u>	<u>1,216,077</u>	<u>1,596,371</u>
Transfers in from other funds	198,282	594,846	793,128
Transfers out to other funds	<u>(1,125)</u>	<u>(3,375)</u>	<u>(4,500)</u>
Total non-operating revenue	<u>\$ 577,451</u>	<u>\$ 2,769,200</u>	<u>\$ 3,346,651</u>

BATTLE CREEK TRANSIT SYSTEM
Schedule of Operating Expenses
For the Year Ended June 30, 2005

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor:				
Operators' salaries and wages	\$ 1,105,581	\$ -	\$ -	\$ 1,105,581
Other salaries and wages	-	224,023	144,376	368,399
Fringe benefits	798,824	163,563	89,737	1,052,124
Services:				
Advertising	-	-	5,305	5,305
Other services	58,005	121,486	38,780	218,271
Materials and supplies:				
Fuel and lubricants	207,779	-	-	207,779
Other materials and supplies	190,045	51,483	14,454	255,982
Utilities	-	-	30,678	30,678
Insurance expense	-	102,608	42,038	144,646
Leases and rentals	12,156	113	1,848	14,117
Depreciation	525,370	-	-	525,370
Total operating expenses	<u><u>\$ 2,897,760</u></u>	<u><u>\$ 663,276</u></u>	<u><u>\$ 367,216</u></u>	<u><u>\$ 3,928,252</u></u>

BATTLE CREEK TRANSIT SYSTEM
Schedule of Expenses by Charter Contract and General Operations
For the Year Ended June 30, 2005

	<u>Charter Contract</u>	<u>General Operations</u>	<u>Total</u>
Labor:			
Operators' salaries and wages	\$ 150	\$ 1,105,431	\$ 1,105,581
Other salaries and wages	-	368,399	368,399
Fringe benefits	-	1,052,124	1,052,124
Services:			
Advertising	-	5,305	5,305
Other services	-	218,271	218,271
Materials and supplies:			
Fuel and lubricants	-	207,779	207,779
Other materials and supplies	-	255,982	255,982
Utilities	-	30,678	30,678
Insurance expense	-	144,646	144,646
Leases and rentals	-	14,117	14,117
Depreciation	-	525,370	525,370
	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	<u><u>\$ 150</u></u>	<u><u>\$ 3,928,102</u></u>	<u><u>\$ 3,928,252</u></u>

BATTLE CREEK TRANSIT SYSTEM
Net Eligible Cost Computations of General Operations
For the Grant Year Ended September 30, 2004

	7/1/04 through 9/30/04	10/1/04 through 6/30/05	Total
Expenses			
Labor	\$ 311,862	\$ 1,162,118	\$ 1,473,980
Fringe benefits	252,028	800,096	1,052,124
Services	73,777	149,800	223,576
Materials and supplies	68,226	395,535	463,761
Utilities	3,716	26,962	30,678
Insurance expense	36,162	108,484	144,646
Leases and rentals	629	13,488	14,117
Depreciation	131,343	394,027	525,370
	<u>877,742</u>	<u>3,050,510</u>	<u>3,928,252</u>
Total expenses			
	<u>877,742</u>	<u>3,050,510</u>	<u>3,928,252</u>
Less ineligible expenses and contra-expenses			
Depreciation on capital assets acquired			
with federal and state grants	503,891	-	503,891
Michigan Public Transit Association dues	262	-	262
American Public Transit Association dues	654	-	654
Charter service revenue	225	578	803
	<u>505,032</u>	<u>578</u>	<u>505,610</u>
Total ineligible expenses and contra-expenses			
	<u>505,032</u>	<u>578</u>	<u>505,610</u>
Eligible expenses	<u><u>\$ 372,710</u></u>	<u><u>\$ 3,049,932</u></u>	<u><u>\$ 3,422,642</u></u>

BATTLE CREEK TRANSIT SYSTEM
Net Eligible Cost Computations of
General Operations (Concluded)
For the Grant Year Ended September 30, 2004

Eligible expenses - 10/1/03 through 6/30/04	\$ 3,067,157
Eligible expenses - 7/1/04 through 9/30/04	<u>372,710</u>
Total eligible expenses - grant year ended 9/30/04	<u><u>\$ 3,439,867</u></u>
 Maximum state operating assistance	
Greater of:	
42.792% of eligible expenses	<u><u>\$ 1,471,988</u></u>
1997 operating assistance (mandatory floor)	<u><u>\$ 972,388</u></u>
 Maximum state operating assistance *	 <u><u>\$ 1,471,988</u></u>

* Reimbursement based on 42.792% of eligible expenses.

BATTLE CREEK TRANSIT SYSTEM
Schedule of Vehicle Miles
For the Year Ended June 30, 2005
(Unaudited)

	<u>Line-Haul</u>	<u>Demand- Response</u>	<u>Charter</u>	<u>Total</u>
First quarter (July - September)	118,404	50,490	-	168,894
Second quarter (October - December)	119,286	46,481	75	165,842
Third quarter (January - March)	115,956	51,707	-	167,663
Fourth quarter (April - June)	<u>113,278</u>	<u>50,258</u>	<u>-</u>	<u>163,536</u>
Total	<u><u>466,924</u></u>	<u><u>198,936</u></u>	<u><u>75</u></u>	<u><u>665,935</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

BATTLE CREEK TRANSIT SYSTEM
Schedule of Vehicle Hours
For the Year Ended June 30, 2005
(Unaudited)

	<u>Line-Haul</u>	<u>Demand- Response</u>	<u>Charter</u>	<u>Total</u>
First quarter (July - September)	7,969	4,720	-	12,689
Second quarter (October - December)	8,148	4,448	9	12,605
Third quarter (January - March)	7,804	4,384	-	12,188
Fourth quarter (April - June)	<u>7,871</u>	<u>4,408</u>	<u>-</u>	<u>12,279</u>
Total	<u><u>31,792</u></u>	<u><u>17,960</u></u>	<u><u>9</u></u>	<u><u>49,761</u></u>

The methodology used for compiling vehicles hours has been reviewed and found to be an adequate and reliable method for recording such information.

BATTLE CREEK TRANSIT SYSTEM
Schedule of Federal Grant Funding
For the Year Ended June 30, 2005

Federal/Pass-through Grantor Program Title/Program Number		Award Amount	(Accrued) Deferred Revenue at 6/30/2004	Federal Receipts	Federal Expenditures	(Accrued) Deferred Revenue at 6/30/2005	Federal Revenue Recognized
U.S. Department of Transportation - Federal Transit Administration							
CFDA Number 20.507 - Capital, Planning and Operating Assistance (Section 5307):							
Operating	MI-90-X440-01	\$ 747,224	\$ (747,224)	\$ 747,140	\$ (84)	\$ -	\$ (84)
Operating	MI-90-X478	769,640	-	-	769,640	(769,640)	769,640
Capital	MI-90-X356-02	305,870	(597)	6,238	5,641	-	5,641
Bus Purchase	MI-90-X419-01	152,000	-	-	146,455	(146,455)	146,455
CFDA Number 20.500 - Federal Transit Capital Investment Grants (Section 5307):							
Farebox Data	MI-90-X195	295,104	(14,881)	14,881	-	-	-
CFDA Number 20.513 - Capital Assistance Program for Elderly and Disabled Persons (Section 5307):							
Bus Purchase	MI-16-0027	40,000	-	-	40,000	(40,000)	40,000
Total federal financial assistance			<u>\$ (762,702)</u>	<u>\$ 768,259</u>	<u>\$ 961,652</u>	<u>\$ (956,095)</u>	<u>\$ 961,652</u>
Federal funding is recorded in the financial statements as follows:							
Non-operating revenue						\$	961,652
Capital contributions							-
Total						<u>\$</u>	<u>961,652</u>
Grants receivable per financial statements:							
Federal funding (per above)						\$	956,095
State funding (per page 17)							<u>50,651</u>
Total per financial statements						<u>\$</u>	<u>1,006,746</u>

BATTLE CREEK TRANSIT SYSTEM
Schedule of State Grant Funding
For the Year Ended June 30, 2005

State/Pass-through Grantor Program Title/Program Number		Award Amount	(Accrued) Deferred Revenue at 6/30/2003	State Receipts	State Expenditures	(Accrued) Deferred Revenue at 6/30/2004	State Revenue Recognized
Michigan Department of Transportation							
Capital, Planning, and Operating Assistance:							
Capital	2002-0013/Z6	\$ 38,000	\$ -	\$ -	\$ 36,614	\$ (36,614)	\$ 36,614
Operating FY 2005		n/a		1,401,308	1,401,308	-	1,401,308
Capital FY02	2002-0597	10,000	-	-	10,000	(10,000)	10,000
Spec Svc 2005	2002-0013/Z11	78,353	-	58,014	62,051	(4,037)	62,051
Shelter Replacement	2002-0013/Z10/R1	83,068	-	83,068	83,068	-	83,068
Fare Box System	Discretionary	n/a	(3,720)	3,720	-	-	-
Spec Svc 2004	2002-0013/Z8	82,410	(18,095)	21,425	3,330	-	3,330
Total state financial assistance			<u>\$ (21,815)</u>	<u>\$ 1,567,535</u>	<u>\$ 1,596,371</u>	<u>\$ (50,651)</u>	<u>\$ 1,596,371</u>

State funding is recorded in the financial statements as follows:

Non-operating revenue	\$ 1,596,371
Capital contributions	-
Total per financial statements	<u>\$ 1,596,371</u>